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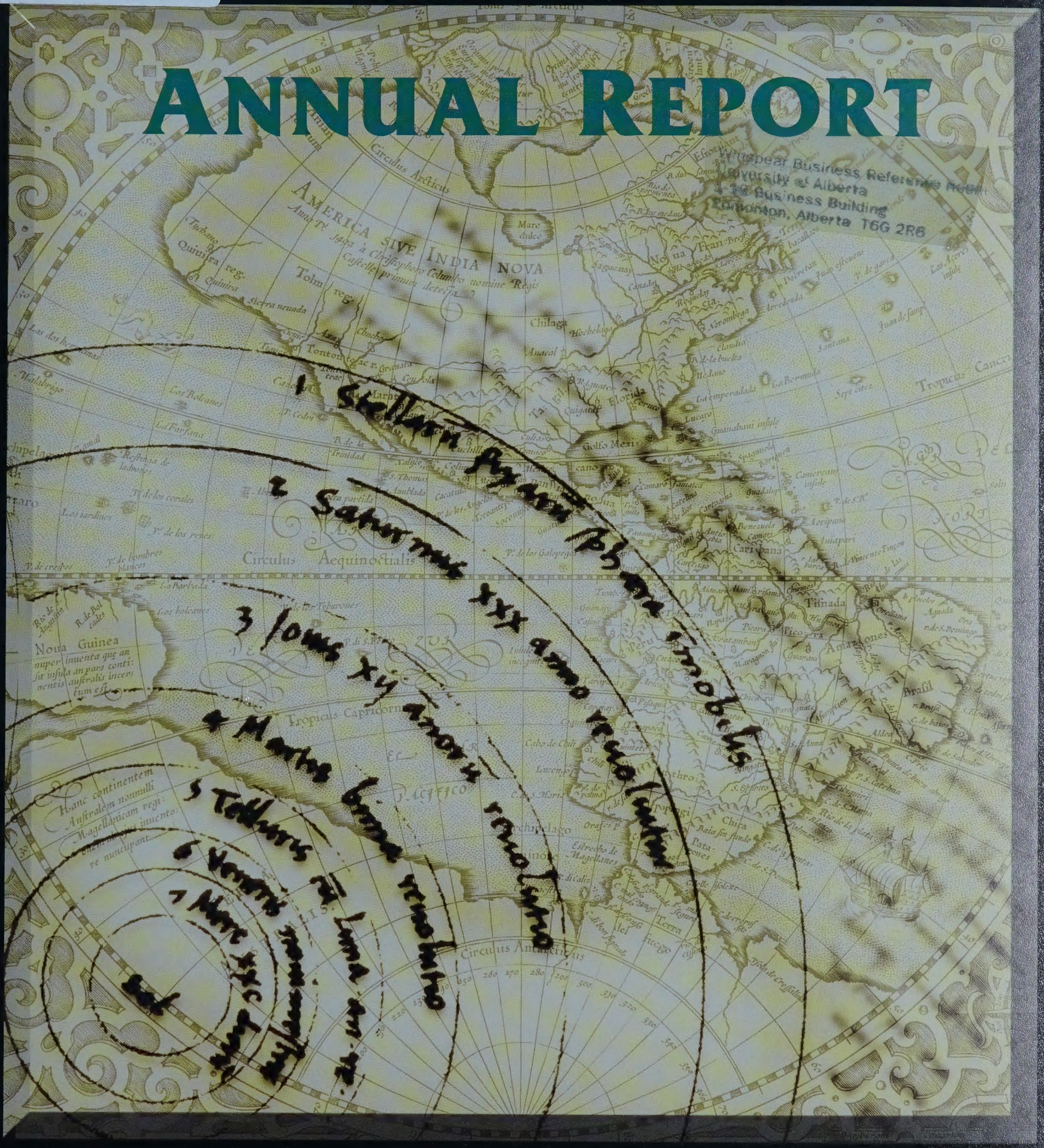
ANNUAL REPORT



VENSTAR Inc.

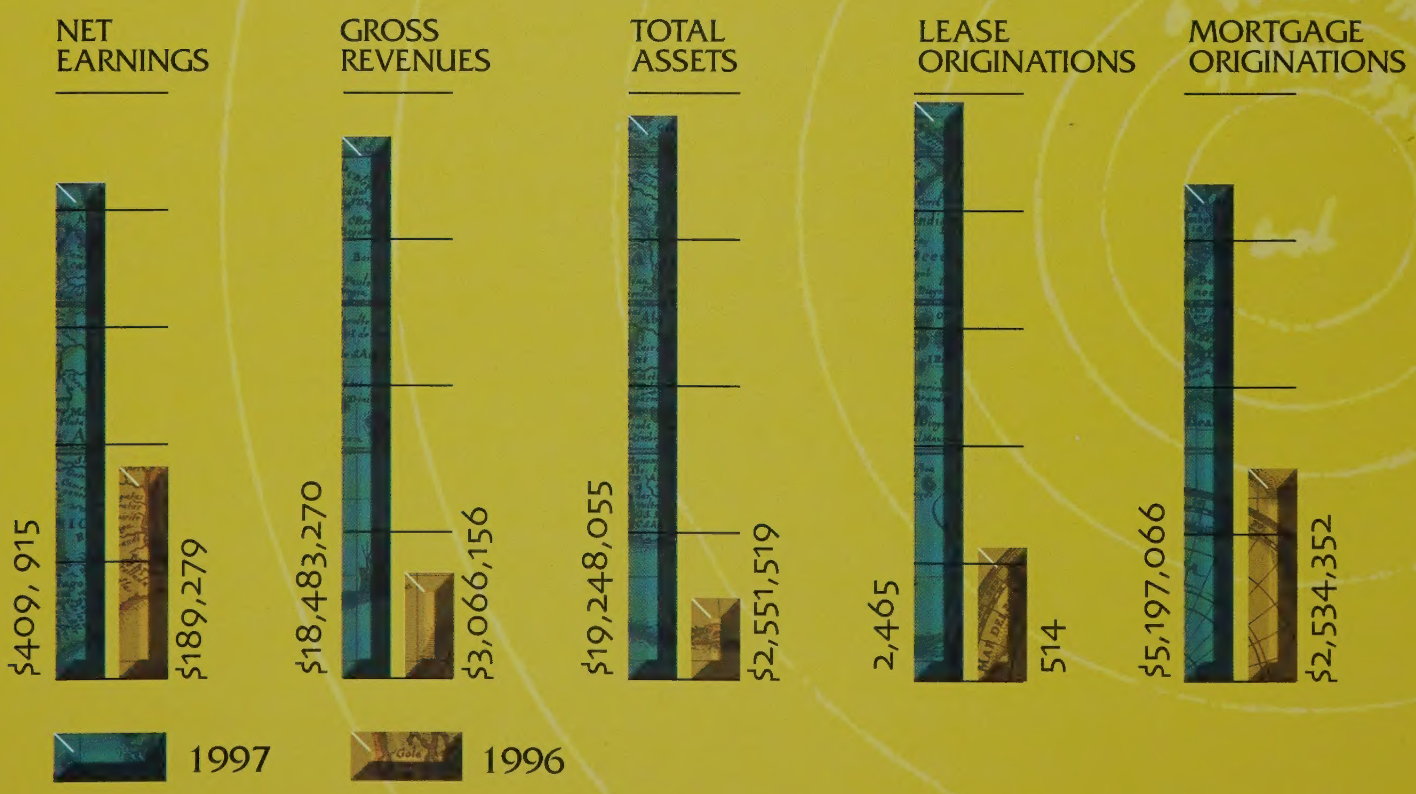
NEW DIRECTIONS IN FINANCING

NEW DIRECTIONS IN FINANCING...
Pioneering a new industry in Canada

Cover

This cover portrays our solar system as first proposed by Copernicus in 1510. The concept that the sun was the center of our solar system challenged conventional wisdom and sparked new ways of thinking. Venstar has also challenged conventional wisdom by pioneering a new direction in financing through its pre-owned vehicle leasing and mortgage brokerage operations. A substantial market for pre-owned vehicle financing exists in Canada that was underserved in the past, and specialty broker services fill a niche that is only now being developed. Venstar continues to discover new directions in specialty financing.

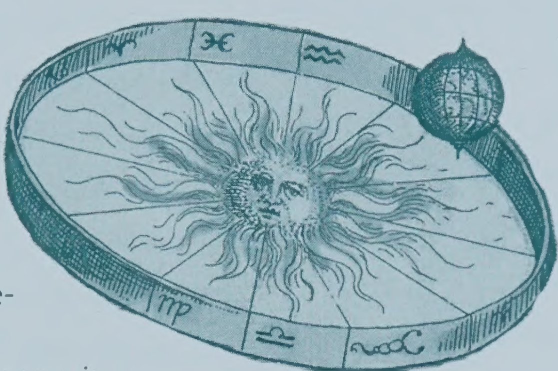
Company Highlights



What is Venstar Inc.?

Venstar Inc. is a vehicle leasing company and a mortgage broker that continually examines new and profitable opportunities in these specialty markets. Since inception, the company has expanded from a Calgary based operation into a national presence with branches in five provinces.

Through Venstar Leasing, the company is the largest, fastest growing and most profitable pre-owned vehicle leasing company in Canada. A combination of higher new car prices and increased consumer debt burden has made pre-owned vehicle leasing an extremely popular financing method. Venstar Leasing is a pioneer and leader in the relatively untapped non-prime lease financing market. The non-prime market is a segment of consumers that find it difficult to obtain conventional automobile financing and is one of the largest markets in the auto finance industry. However, few companies in Canada have a significant presence in this market. Venstar Leasing fills this niche through its operations in five provinces.



Venstar Inc. is also a successful mortgage broker through its subsidiary, Venstar Financial. Venstar Financial provides mortgage administration and origination services to a wide variety of mortgage purchasers. These mortgages are short term in nature, generate rates of return typically in excess of 18% per annum and are weighted to the commercial real estate market.

Message to Shareholders

Venstar's goal is to increase shareholder value by expanding its specialty finance operations in the non-prime vehicle finance market and mortgage brokerage industry. To this end, we have developed concise strategic growth objectives:

Venstar Leasing

- To expand our leasing operations nationally to gain a foothold in new markets. This will be achieved through branch expansion and acquisitions.
- To continue to develop centralized lease controls through our National Credit Center and collections department.
- To raise the capital and funding commitments required to expand our operations according to plan.

Venstar Financial

- To grow our mortgage broker operations and pool of mortgage purchasers through increased marketing and promotion.

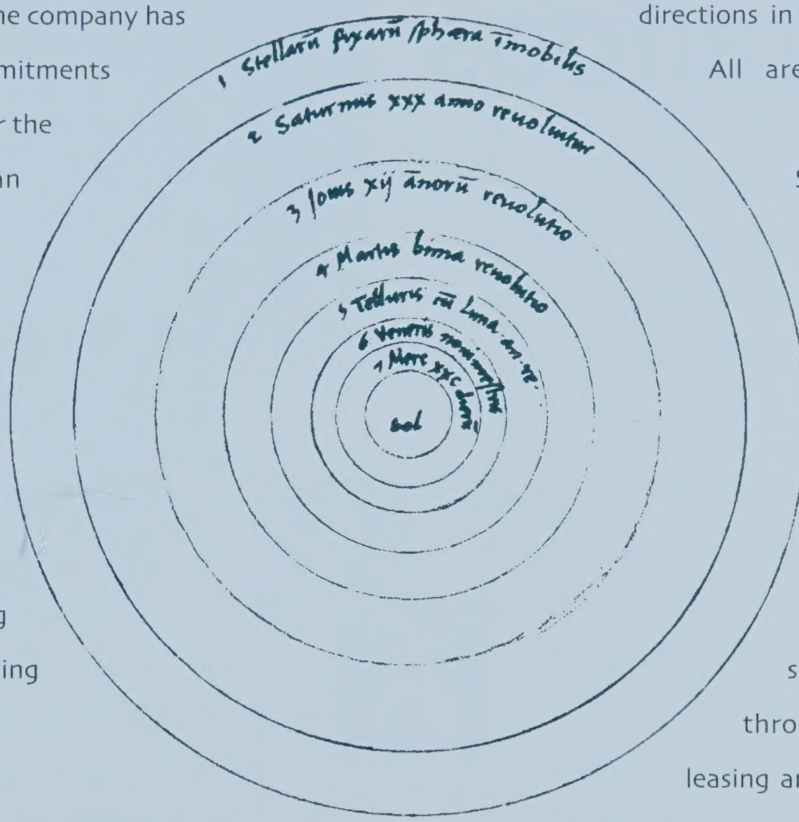
In 1997, we continued to meet these objectives. As a result of rapid growth throughout the year, consolidated after tax earnings for the twelve months ended December 31st, 1997 were $409, 915, up $220, 636 or 116% from the previous year. Lease originations totaled over $16,000,000 for 1997, as compared to over $2,000,000 for 1996, and mortgage originations grew by more than 105%. This is the 16th consecutive quarter of positive earnings for Venstar Inc. and its predecessor companies.

Venstar Leasing opened five new branches and two sub-branches in five provinces. Leasing currently operates in Calgary and Edmonton, Alberta; Langley, B.C.; Winnipeg, Manitoba; Saskatoon, Saskatchewan; St. Catharines and Toronto, Ontario. Leasing operations also expanded through the acquisition of a Calgary competitor during the third quarter. The volume of business available to our branch network will allow Leasing to meet or exceed our budgeted lease projections. We are, however, continuing to seek out beneficial acquisition prospects, with the majority of our efforts focused on eastern Canada.

Venstar Leasing centralized its portfolio controls with the creation of its National Credit Center during the second quarter of 1997. Prudent and stringent underwriting standards and a focus on asset quality are key determinants of success in the non-prime finance industry. Our proprietary credit scoring model provides the company with a consistent predictor of credit delinquency, and our vehicle purchase decisions are strictly monitored. Our collection systems ensure that remedial actions on delinquencies are taken quickly and efficiently. Venstar Leasing will continue to centralize its collection controls in 1998 with the implementation

of a Wide Area Network between branches. This network provides real time access to our portfolio tracking and collection systems regardless of geographic location.

Throughout 1997, Venstar continued to be successful in securing the capital and funding commitments necessary to expand its vehicle leasing operations. The company has secured funding commitments for 1998 that allow for the origination of an additional 6,000 leases. In addition, we are pursuing opportunities in the securitization market as a means of reducing our cost of capital, decreasing leverage and diversifying asset risk.



Venstar Financial continues to meet its strategic objective of additional growth. Traditional institutions have reduced their participation in commercial real estate financing, and Venstar Financial has filled a niche in this underserved market. In 1997, the company originated over $5,197,000 in new mortgages and continued to broaden its pool of mortgage lenders.

Venstar will continue to examine new opportunities and directions in the vehicle finance market. The non-prime finance industry in general contains many markets that fit with Venstar's expansion goals. For example, financing vehicle warranties purchased by customers, financing insurance premiums, vehicle equity lending and buy here/pay here automobile lots are all examples of new directions in the non-prime industry. All are under consideration.

Since inception in early 1996, Venstar has grown into a company with sixty-four professional and dedicated employees. Together we will continue our goal of increasing shareholder value through expansion of our leasing and brokerage operations. We are extremely proud of our accomplishments to date and wish to thank our staff, investors and shareholders for being such an important part of our success.

J.W. Douglas Beatty
President and Chief Executive Officer

Pre-owned Vehicle Leasing Operations

The number of Canadians leasing vehicles has grown dramatically in the 1990's. Vehicle leasing has grown as a percentage of vehicle financing transactions by 30% since 1990. A combination of higher new vehicle prices and increased consumer debt burden has made leasing the preferred financing alternative for the majority of new car purchases. Leasing makes monthly payments more affordable while allowing the consumer to purchase the vehicle of their choice.

Q Why does a market for pre-owned vehicle leasing exist?

A
- *Rising new car prices*
- *Increased consumer debt burdens*
- *Longer life of vehicles*

Rising new car prices, improved technology and the resulting longer life of vehicles means more consumers are turning to the pre-owned market for their vehicle purchases. The majority of all automobile transactions occur in the pre-owned vehicle market. In addition, a significant percentage of the Canadian population is not in a financial position to obtain financing for a new automobile. These consumers form the majority of Venstar Leasing's target market; the non-prime market. The dynamics of this market provide an overwhelming opportunity for pre-owned vehicle leasing and specialized financing services.

The Non-Prime Market

The non-prime automobile finance industry in Canada is in its early stages of development. It is dominated by many fragmented, third party financed independent dealerships. The third parties providing the financial services are usually consumer finance companies with limited national presence. Major financial institutions do not provide any meaningful competition in the pre-owned finance sector, as these contracts are in a risk class that require greater administration and specialized management systems. Venstar Leasing has captured a large portion of this unrecognized and underserved market.

Q How does Venstar ensure high quality risk management decisions?

A
- *Prudent Underwriting*
- *A Focus on Asset Quality*
- *Effective Collections*
- *Aggressive Remarketing*
- *Dealer Surveillance*

The current size of the Canadian non-prime sector of the automobile finance market is unknown statistically. However, in the United States, this sector has evolved into a substantial industry. There are over 30 publicly traded companies that are active to varying degrees in the non-prime finance sector.

Competitive Advantages of Venstar Leasing

There are several factors contributing to the success of many North American non-prime finance companies. Prudent underwriting standards, a focus on asset quality, effective collections, aggressive remarketing strategies and close dealer surveillance are all key factors. Venstar Leasing has focused on and developed industry leading skill sets in these areas.

Q How can pre-owned vehicles provide Venstar with effective security?

A *Venstar Leasing purchases its vehicles at or below Average Black Book value (an independent estimate of wholesale value) and does not finance a vehicle dealer's gross retail price.*

- Prudent Underwriting - Prudent underwriting standards are an extremely important element of success for non-prime finance companies. Organizations that utilize credit bureau data combined with an effective credit scoring system have a far better chance of preventing credit delinquencies. Venstar Leasing utilizes a carefully developed proprietary credit scoring model in conjunction with an online link to credit bureau information. This information is employed by Venstar's National Credit Center to approve or decline financing. These strict underwriting standards ensure that high quality lease generation is common to all branch locations.

- Focus on Asset Quality - Any asset, regardless of how it depreciates, can provide effective security as long as purchasing decisions are carefully monitored. Pre-owned vehicles are no exception. Venstar Leasing purchases its vehicles from dealers at or below their Average Black Book value (an independent estimate of wholesale value). This prevents the company from financing the vehicle dealer's gross retail price, thus mitigating the risk associated with vehicle depreciation. When combined with timely collections management, vehicles can be taken back into inventory and still provide the company with an effective means of re-capturing lost finance income.

- Effective Collections - The rigors of the non-prime market require that Venstar Leasing be as effective a collections company as any finance contract originator. Collections calls are generally made within 24 hours of late payment notification. Our centralized collection systems are continually evaluated, refined and honed in response to our dramatically increasing portfolio. Venstar also plans to implement new software systems to enhance the company's portfolio tracking capabilities in 1998, and distribute this information over its Wide Area Network between branches.

• Aggressive Remarketing - It is the nature of non-prime credit that requires companies to repossess more vehicles than conventional finance companies. However, most non-prime vehicle finance companies did not enter the business with the intention of becoming pre-owned vehicle dealers. The general trend in the north American industry is to avoid the difficulties of inventory remarketing by selling repossessed vehicles wholesale through auctions or third party dealerships. Venstar has chosen a different approach by selling or re-leasing inventory though professional, high profile dealerships. The company opened its first retail lot, Lease Liquidators Ltd., in mid 1997. As a result, the remarketing of repossessed vehicles actually provided modest profits in both 1996 and 1997. As the branch network originates more leases, Venstar will open a Lease Liquidators in most major branch cities.

•Dealer Surveillance - Venstar Leasing works hard to create and foster solid business relationships with its vehicle dealers. The company is one of the few pre-owned vehicle leasing companies to employ a fully trained, professional sales force, with each member responsible for a specific group of vehicle dealers. Through effective use of this sales force, Venstar has established itself in a contract priority position relative to competitors. Venstar's sales force also provides another level of lease scrutiny and customer service that competitors lack.

In achieving future operational and expansion targets, Venstar Leasing will continue to monitor and develop those factors that have made it successful.

Consolidated Financial Statements

December 31, 1997 and 1996

Auditors' Report

To the Shareholders of Venstar Inc.

We have audited the consolidated balance sheets of Venstar Inc. (a continuation of Venstar Financial Inc. and Venstar Leasing Inc.) as at December 31, 1997 and 1996 and the consolidated statements of income, retained earnings (deficit) and cash flow for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and cash flow for the years then ended in accordance with generally accepted accounting principles.

The financial statements for Venstar Leasing Inc. as at December 31, 1996 and for the period from commencement of operations, February 7, 1996 to December 31, 1996 were audited by other auditors who expressed an opinion without reservation on these statements in their report dated February 11, 1997.

Collins Barrow

CHARTERED ACCOUNTANTS
Calgary, Alberta
March 9, 1998

Consolidated Balance Sheets

(a continuation of Venstar Financial Inc. and Venstar Leasing Inc.)
December 31, 1997 and 1996

	1997	1996
Assets		
Cash and short-term investments	$ 966,344	$ 63,715
Accounts receivable	880,003	120,087
Inventory	772,228	64,035
Loans receivable (note 4)	-	185,548
Net investment in leases (note 5)	16,089,384	2,094,291
Capital assets (note 6)	165,597	23,843
Deferred share issue costs	14,616	
Deferred financing costs	14,390	
Deferred foreign exchange loss	345,493	
	$ 19,248,055	$ 2,551,519
Liabilities		
Accounts payable and accrued liabilities	$ 440,114	$ 124,219
Income taxes payable	284,477	77,403
Due to related parties (note 7)	243,133	694,200
Loans payable (note 8)	16,179,458	1,384,182
Debentures payable (note 9)	1,809,000	
	18,956,182	2,280,004
Shareholders' Equity		
Share capital (note 10)	302,780	201
Retained earnings prior to the following	589,093	271,314
Adjustment relating to the acquisition of Venstar Leasing Inc. from a related party (note 3)	(600,000)	
Retained earnings (deficit)	(10,907)	271,314
	291,873	271,515
	$ 19,248,055	$ 2,551,519

Approved by the Board,

____________________, Director

____________________, Director

Consolidated Statements of Income

VENSTAR Inc.

(a continuation of Venstar Financial Inc. and Venstar Leasing Inc.)
Years ended December 31, 1997 and 1996

	1997	1996
Sales	$ 14,685,118	$ 2,422,195
Cost of sales	13,672,431	2,141,273
Gross margin	1,012,687	280,922
Finance income	1,828,241	206,203
Commitment and administration fees	1,965,981	386,574
Interest and other income	3,930	51,184
	4,810,839	924,883
Expenses		
Interest	993,365	155,175
Operation and administration	2,452,193	421,655
Professional and regulatory fees	280,281	75,515
Provision for lease impairment	284,000	-
Amortization	38,740	5,433
	4,048,579	657,778
Income before income taxes	762,260	267,105
Income taxes	352,345	77,826
Net income	$ 409,915	$ 189,279
Earnings per share (note 10[g])		
Basic	$ 0.08	$ 0.07
Fully diluted	$ 0.04	$ 0.06

Consolidated Statements of Retained Earnings (Deficit)

VENSTAR Inc.

(a continuation of Venstar Financial Inc. and Venstar Leasing Inc.)
Years ended December 31, 1997 and 1996

	1997	1996
Retained earnings, beginning of year	$ 271,314	$ 82,035
Net income	409,915	189,279
Dividends (note 3)	(92,136)	-
	589,093	271,314
Adjustment relating to acquistion of Venstar Leasing Inc. from a related party (note 3)	(600,000)	-
Retained earnings (deficit), end of year	$ (10,907)	$ 271,314

Consolidated Statements of Cash Flow

(a continuation of Venstar Financial Inc. and Venstar Leasing Inc.)
Years ended December 31, 1997 and 1996

	1997	1996
Operating activities		
Net income	$ 409,915	$ 189,279
Add items not involving cash		
Provision for lease impairment	284,000	-
Amortization	38,740	5,433
	732,655	194,712
Changes in non-cash working capital balances	(945,140)	16,488
	(212,485)	211,200
Financing activities		
Advances from (repayments to) related parties	(451,067)	694,200
Proceeds from loans payable, net of repayments and deferred foreign exchange loss	14,449,783	1,384,182
Proceeds from sale of debentures	1,809,000	-
Issuance of share capital, net of share issue costs	302,579	200
	16,110,295	2,078,582
Investing activities		
Advances on loans receivable	-	(106,048)
Proceeds on sale of loans receivable	185,548	-
Net investment in leases, net of repayments	(14,279,093)	(2,094,291)
Acquisition of capital assets	(178,894)	(26,794)
Deferred share issue costs	(14,616)	-
Deferred financing costs	(15,990)	-
	(14,303,045)	(2,227,133)
Distributions to shareholders		
Dividends	(92,136)	-
Related party adjustment (note 3)	(600,000)	-
	(692,136)	-
Cash inflow	902,629	62,649
Cash and short-term investments, beginning of year	63,715	1,066
Cash and short-term investments, end of year	$ 966,344	$ 63,715

1. Operations

Venstar Inc. ("Venstar or "the Company") was incorporated under the Business Corporations Act (Alberta) on March 4, 1996. The Company is engaged in the business of specialized finance through two wholly-owned subsidiaries, Venstar Financial Inc. and Venstar Leasing Inc. Venstar Financial Inc. is a mortgage broker and administrator of asset based loan arrangements. Venstar Leasing Inc. is engaged in the business of non-prime vehicle leasing and is active in five Canadian Provinces. The Company is also engaged in remarketing its repossessed vehicles through Lease Liquidators Ltd., another wholly-owned subsidiary.

2. Significant accounting policies

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies are summarized below:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries.

(b) Finance income

Finance income on net investment in sales-type leases is determined by reference to the minimum net payments receivable under the respective contracts. Finance income is recognized into income over the lease terms in a manner that produces a constant rate of return. Finance income on leases is recorded as income on an accrual basis except for leases which are considered impaired. When a lease becomes impaired, recognition of finance income ceases when the carrying amount of the lease (including any accrued but uncollected finance income) is no longer recoverable from the net realizable amount of the underlying security.

(c) Foreign currency translation

Foreign currency denominated assets and liabilities are translated at the exchange rates prevailing at the balance sheet date for monetary items and at the exchange rates prevailing at the transaction dates for non-monetary items. Revenues and expenses, except for amortization, are converted at average exchange rates for the year. Amortization is converted at the same rate as the related assets. Gains or losses on translation are expensed except for those relating to long-term monetary items which are deferred and amortized over the remaining term of the related items.

(d) Inventory

Inventory is composed of repossessed vehicles previously held as security for investment in leases. Inventory is valued at the lower of cost, determined on a specific identification basis, and net realizable value.

(e) Allowance for impaired leases

The allowance for impaired leases is maintained at a level considered adequate to absorb lease losses existing in the Company's lease portfolio. The allowance is adjusted by a periodic provision for lease impairment which is charged against income and is reduced by actual lease write-offs. The amount of initial impairment and any subsequent changes are recorded through the provision for lease impairment as an adjustment of the specific allowance.

The Company maintains specific allowances for impaired leases that reduces the carrying value of leases identified as impaired to their estimated realizable amounts.

- leases classified as impaired include leases for which interest or principal payments are 90 days past due. Leases are also considered impaired if, in management's view, there is no longer reasonable assurance of timely collection of the full amount of principal and interest in accordance with the terms of the lease agreement.

- estimated realizable amounts are determined by discounting the expected future cash flows at the effective interest rate inherent in the lease. If cash flow cannot be reasonably estimated, the fair value of the underlying security, net of expected realization costs, is used.

In addition to specific allowances for identified impaired leases, the Company maintains a non-specific allowance to cover impairment which is inherent in the lease portfolio and is estimated based upon historical loss experience and prevailing economic conditions.

(f) Capital assets

Capital assets are recorded at cost. Amortization is provided for using the following annual rates and methods:

Computer hardware	20% declining balance
Computer software	50% declining balance
Furniture and equipment	20% declining balance
Leasehold improvements	7 years straight-line

One-half amortization is provided for in the year a capital asset is acquired.

(g) Deferred charges

(i) Deferred share issue costs

Deferred share issue costs represent legal and agency costs incurred in respect of a future share issuance. These costs will be offset against the proceeds received from the share issuance upon its completion or will be charged to income immediately if the share issuance does not proceed. During 1997, the Company entered into a letter of intent with an agent in connection with a potential public share offering.

(ii) Deferred financing costs

Deferred financing costs represent legal, regulatory and commission costs associated with the issuance of the debentures payable (note 9). These costs are being amortized over the five year term of the debentures on a straight-line basis and are presented net of accumulated amortization of $1,600. These costs will be charged to income immediately if it is determined that there is no future benefit. Should all or a portion of the debentures be converted to Common shares, the related portion of unamortized financing costs will be charged to share capital.

(h) Measurement uncertainty

The valuation of inventory is based upon management's best estimate of the fair value of each repossessed vehicle held for resale. The valuation of net investment in leases is based upon management's best estimates of expected future cash flows discounted at the effective interest rates inherent in the leases and the fair value of the vehicles underlying the leases. The valuation of deferred charges and capital assets is based upon management's best estimate of the future recoverability of these assets. The amounts recorded for amortization of deferred financing costs and capital assets are based upon management's best estimates of the remaining useful life and period of future benefit of the related assets.

By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements from changes in such estimates could be significant.

3. Business combination

During 1997, Venstar completed the following business combinations:

(a) The acquisition of all the issued and outstanding common shares of Venstar Financial Inc. (*formerly MRI Financial Group Inc.*) ("Financial") pursuant to a Share Exchange Agreement dated January 3, 1997.

(b) The acquisition of all the issued and outstanding Common shares of Venstar Leasing Inc. (*formerly MRI Leasing Ltd.*) ("Leasing") pursuant to a Share Exchange Agreement dated February 1, 1997.

Consideration was as follows:

	Deemed Consideration
Financial	
1,990,000 Class "A" Common Shares	$ 398,000
Leasing	
6,000,000 Series "A" First Preferred Shares	6,000,000
$600,000 promissory notes bearing interest at 10% per annum and payable on demand on or after January 1, 1998	600,000
	6,600,000
	$ 6,998,000

At the time these transactions occurred, Financial and Leasing had common directors, officers and shareholders and were under common control. The business combinations therefore, have been accounted for as a single purchase transaction wherein Venstar acquired the interests of a single controlled entity being the combined operations of Financial and Leasing. The directors, officers and shareholders of Financial and Leasing were also directors, officers and significant but not controlling shareholders of Venstar when this purchase transaction occurred.

Subsequent to the above share exchanges, the former shareholders of Financial and Leasing owned 67.3% of the issued and outstanding Common Shares of Venstar. As a result, the combination has been accounted for as a reverse takeover using the purchase method with Financial and Leasing being the acquiring entity.

For purposes of accounting for the reverse takeover of Venstar by Financial and Leasing, the deemed consideration was determined to be $610,000 ascribed to the 3,050,000 Common Shares of Venstar outstanding immediately prior to the business combination.

The accounting for the business combination on this basis can be summarized as follows:

Deemed consideration	$ 610,000
Assigned values of net assets of Venstar:	
Current assets	336,330
Current liabilities	(4,618)
	331,712
Excess of deemed consideration over net assets acquired	$ 278,288

The excess of deemed consideration over net assets acquired has been used to reduce share capital as it is considered for accounting purposes to be a capital transaction.

In accordance with reverse takeover accounting, these financial statements are a continuation of Financial and Leasing. The capital structure (authorized and issued shares) of the Company is that of Venstar, and the stated values of share capital are those of Financial and Leasing. The results of operations of Venstar have been included in the Company's consolidated statements of income and retained earnings (deficit) commencing January 3, 1997, being the date of acquisition. As Financial and Leasing have been accounted for as a single controlled entity for this business combination, their combined accounts have been recorded at carrying values as if the companies had been combined since inception and are presented as the 1996 comparative figures in these financial statements. The results of Leasing have been included from its commencement of operations on February 7, 1996.

Financial paid a dividend of $92,136 to its shareholders prior to the date of acquisition. Consistent with the basis of accounting for the acquisition, this dividend is recorded in the consolidated statements of the combined entity.

The Series "A" First Preferred Shares issued by Venstar on the acquisition of Leasing have been ascribed no value. The promissory notes issued were recorded as distributions to the former shareholders of Leasing and, accordingly, $600,000 has been charged to retained earnings. The promissory notes were repaid in full by the Company in 1997.

Pursuant to a Certificate of Amendment dated May 22, 1997, MRI Financial Group Inc. changed its name to Venstar Financial Inc. and pursuant to Articles of Amendment dated April 4, 1997, MRI Leasing Ltd. changed its name to Venstar Leasing Inc.

4. Loans receivable

The Company participated in loans that were for terms not exceeding one year with interest rates varying from 21% to 42% per annum. Security was provided for by a specific charge on real property, general security agreements, personal guarantees and other collateral security.

On January 3, 1997, the Company's interest in these loans as at December 31, 1996 was sold to the former shareholders of Financial for $185,548.

5. Net investment in leases

	1997	1996
Total minimum lease payments receivable	$ 25,935,889	$ 3,265,841
Unearned finance income	(9,846,505)	(1,171,550)
	16,089,384	2,094,291
Less: Portion due within one year	5,127,085	517,592
	$ 10,962,299	$ 1,576,699

Net investment in leases are recorded as sales-type leases. The lessees have substantially all of the risks and benefits of ownership of the vehicles underlying the leases however, title to the vehicles does not transfer to the lessee until all conditions of the lease contract are satisfied. Net investment in leases are recoverable over periods ranging from 18 to 48 months, earn finance income at rates ranging from 18% to 45% per annum and are secured by the vehicles underlying the leases.

The Company has identified $1,950,757 (1996 - $187,251) of net investment in leases as being impaired. A specific allowance of $189,184 (1996 - $NIL) has been recorded to offset any potential lease losses estimated to exist within these impaired leases based on the assessed value of the underlying security. A further non-specific allowance of $94,816 (1996 - $NIL) has been recorded to offset any future potential lease losses estimated to exist within the remaining lease portfolio.

6. Capital assets

1997

	Cost	Accumulated Amortization	Net Book Value
Computer hardware	$ 32,644	$ 3,264	$ 29,380
Computer software	77,367	21,912	55,455
Furniture and fixtures	74,376	14,965	59,411
Leasehold improvements	24,910	3,559	21,351
	$ 209,297	$ 43,700	$ 165,597

1996

	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	$ 30,403	$ 6,560	$ 23,843

7. Due to related parties

	1997	1996
Due to officers and directors		
- Unsecured, due February 13, 1998 and April 12, 1998, interest at 17% per annum	$ 200,000	$ -
- Repaid during 1997	-	694,200
Due to a company with a common shareholder, director and officer		
- Unsecured, no set terms of repayment, interest at 12% per annum	43,133	-
	$ 243,133	$ 694,200

On February 13, 1998, the Company repaid $100,000 of the amount due to officers and directors.

8. Loans payable

	1997	1996
Unsecured loans, repayable in monthly instalments of interest only at rates ranging from 12% to 17% per annum, maturing between December 31, 1997 and December 31, 1998	$ 932,403	$ 532,880
Bank revolving loans, interest only payable monthly at the Canadian Western Bank's prime rate plus 2% per annum for six months after drawdown which occurred in November, 1997, to be repaid in full from the sale of lease contracts financed by this facility. If not repaid in full within six months, the loan is to be reduced by equal blended monthly payments	750,000	-

	1997	1996
Bank term loans, repayable in monthly installments of $20,593 including interest at rates ranging from 7.5% to 7.75% per annum, maturing between February, 1999 and December, 2000	331,026	266,302
Bank term loans, repayable in monthly installments of $19,056, plus interest at the Canadian Western Bank's prime rate plus 2% per annum, maturing between May, 2000 and July, 2000	560,935	-
Sale and leaseback loans, repayable in monthly installments: of $341,371 U.S. including interest at rates ranging from 12.10% to 14.27% per annum maturing between March, 2000 and January, 2001, secured by certain lease contracts	13,605,093	-
Loans payable repaid during 1997	-	585,000
	16,179,457	1,384,182
Less: Portion due within one year	6,469,981	1,235,265
	$ 9,709,476	$ 148,917

Subsequent to December 31, 1997, the Company repaid $225,000 of the unsecured loans which were due December 31, 1997. Certain unsecured lenders agreed to renegotiate the terms of their loans to reduce interest to 12% per annum and to extend the maturity date to six months from the date of renegotiation.

Principal repayments over the next four years are as follows:

1998	$ 6,469,981
1999	5,246,634
2000	4,292,018
2001	170,824
	$ 16,179,457

The bank revolving loans and bank term loans are secured by a General Security Agreement providing a first security interest in all capital assets, accounts receivable, inventory and all present and after acquired property other than the leases pledged as security to other lenders, an assignment of certain lease contracts, other security interests, an Unlimited Liability Guarantee of the Company and evidence of insurance over the fleet of vehicles financed. The Company is required to meet certain financial and reporting requirements with respect to the bank revolving loans, bank term loans and sale and leaseback loans.

9. Debentures payable

Pursuant to a Private Placement Offering Memorandum dated February 10, 1997, the Company issued $1,809,000 convertible debentures of which $840,000 were purchased by officers, directors and shareholders of the Company.

The debentures are unsecured and bear interest at 10% per annum until maturity on February 27, 2002. The debentures are convertible into Class "A" Common Shares of the Company from March 2, 1998 to and including March 1, 1999 at $1.75 per share.

The debentures are redeemable at face value at the option of the Company after February 27, 2000.

10. Share capital

(a) Authorized
Unlimited number of voting Class "A" Common Shares
Unlimited number of non-voting First Preferred Shares
Unlimited number of voting Second Preferred Shares

(b) Issued

	Number of Shares	Stated Value
Class "A" Common Shares		
Balance, December 31, 1995	$ 15,174	$ 1
For cash	3,034,826	200
Balance, December 31, 1996	3,050,000	201
To affect the business combination (note 3)	1,990,000	331,712
Exercise of stock options	61,500	12,300
Balance, December 31, 1997	5,101,500	344,213
Series "A" First Preferred Shares		
Balance, December 31, 1995 and 1996	-	-
To affect the business combination (note 3)	6,000,000	-
Balance, December 31, 1997	6,000,000	-
Less: Share issue costs		41,433
	$	302,780

(c) The First and Second Preferred Shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

(d) Pursuant to Articles of Amendment dated March 27, 1997, the Company created 6,000,000 Series "A" First Preferred Shares. These shares are non-voting, non-dividend bearing and are convertible at the option of the holder into Class "A" Common Shares on a one-for-one basis. The Company is entitled to force conversion of any remaining outstanding Series "A" First Preferred Shares into Class "A" Common Shares at any time after January 1, 2000. The holders of these Preferred Shares have waived any preference over the Class "A" Common Shares in the event of liquidation, dissolution or windup of the Company.

(e) Under the terms of a stock option plan, the Company has granted stock options to officers, directors and employees to purchase Class "A" Common Shares of the Company as follows:

Number of Shares	Exercise Price Per Share	Expiry Date
150,200	$ 1.00	June 30, 2000
288,500	$ 0.20	March 18, 2001

Subsequent to December 31, 1997, the Company granted stock options to employees to purchase 59,400 Class "A" Common Shares of the Company at $1.00 per share expiring December 31, 2000.

(f) As at December 31, 1997, 3,990,000 Class "A" Common Shares remain in escrow to be released as follows:

- 916,666 shares on January 3, 1998;
- 666,667 shares on each of January 3, 1999 and 2000;
- 1,740,000 shares releasable as to 1 share for each $0.20 of cumulative cash flow achieved by Financial during the period from January 1, 1996 to December 31, 2001.

As at December 31, 1997, 5,000,000 Series "A" First Preferred Shares remain in escrow to be released as to 1,000,000 shares on each of March 31, 1998, 1999, 2000, 2001, and 2002.

(g) Basic earnings per share is calculated based on the weighted average number of Common Shares outstanding during the period of 5,083,250 (1996 - 2,739,470). Fully diluted earnings per share is calculated as though the exercise of Class "A" Common Share stock options and the conversion of debentures and Series "A" First Preferred Shares into Class "A" Common Shares had actually occurred at the beginning of the period resulting in a total of 12,611,736 (1996 - 3,005,908) Class "A" Common Shares.

11. Commitments

(a) Under the terms of operating leases for its office premises, the Company is obligated to make minimum rental payments exclusive of occupancy costs as follows:

1998	$	59,151
1999		37,164
2000		11,917
	$	108,232

(b) Under the terms of operating leases for office equipment and computer equipment, the Company is obligated to make the following minimum rental payments as follows:

1998	$	45,399
1999		28,117
2000		5,517
	$	79,033

12. Related party transactions

(a) During the year, the Company incurred interest expense in the amount of $66,509 (1996 - $NIL) in respect of the convertible debentures held by officers, directors and shareholders of the Company (note 9). Of this amount, $28,997 (1996 - $NIL) is included in accounts payable and accrued liabilities at year-end.

(b) During the year, the Company paid $41,314 (1996 - $NIL) in consulting fees to officers and directors of the Company.

(c) During the year, management fees of $384,175 (1996 - $64,209) were paid to officers and directors of the Company.

(d) Included in accounts payable and accrued liabilities at December 31, 1997 is $NIL (1996 - $29,000) due to a company with a common director.

(e) During the year, interest of $90,492 (1996 - $76,478) was paid on amounts due to related parties (note 7).

(f) Included in loans payable is $25,000 (1996 - $25,000) in loans due to an officer and director of the Company. During the year, interest of $3,750 (1996 - $3,750) was paid on these loans.

Management is of the opinion that these transactions were undertaken under the same terms and conditions as transactions with non-related parties.

13. Financial instruments

(a) Fair values

The fair values of cash and short-term investments, accounts receivable and accounts payable and accrued liabilities are estimated to approximate their carrying values due to the short-term maturity of these financial instruments.

The fair values of net investment in leases are estimated to approximate their carrying values on the basis that the assets will be recovered from undiscounted future cash flows or from the realization on the vehicles underlying the leases.

The fair values of due to related parties, loans payable and debentures payable are estimated to approximate their carrying values as the terms and conditions for these debts are similar to the terms and conditions that the Company could negotiate for similar debt.

(b) Credit risk

The Company's exposure to credit risk is limited to the total carrying value of accounts receivable and net investment in leases in the amount of $16,934,124 (1996 - $2,397,074).

(c) Interest rate risk

The Company is exposed to interest rate cash flow risk to the extent that certain loans payable are at a floating rate of interest. The Company also is exposed to interest rate price risk to the extent that net investment in leases, certain loans payable and debentures payable are at a fixed rate of interest.

(d) Currency risk

The Company is exposed to currency price risk to the extent that repayment of U.S. denominated loans payable are subject to fluctuations in the related foreign exchange rate.

14. Subsequent event

Subsequent to December 31, 1997, the Company obtained additional sale and leaseback loans in the amount of $5,388,873 U.S. repayable in monthly instalments of $173,530 U.S. including interest at rates ranging from 12.38% to 13.18% per annum, maturing between January, 2001 and June, 2001.

15. Comparative figures

The presentation of certain accounts of the previous year has changed to conform with the presentation adopted for the current year.

CORPORATE INFORMATION

Directors and Officers

J.W. Douglas Beatty
Chief Executive Officer, President, Director

Richard M. DeGroat
Director

Chris B. Kjelgren
Chief Financial Officer

Kenneth J. Tarry
Corporate Secretary

Roy G. Wilson
Chairman of the Board, Director

Paul E. Mayer
Director

Douglas J. Sinclair
Controller

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Stock Exchange Listing

The Alberta Stock Exchange

Trading Symbol

VSR.A

Transfer Agent and Registrar

Montreal Trust, Calgary, Alberta

Legal Counsel

Blain & Company, Calgary, Alberta

Auditor

Collins Barrow, Chartered Accountants
Calgary, Alberta

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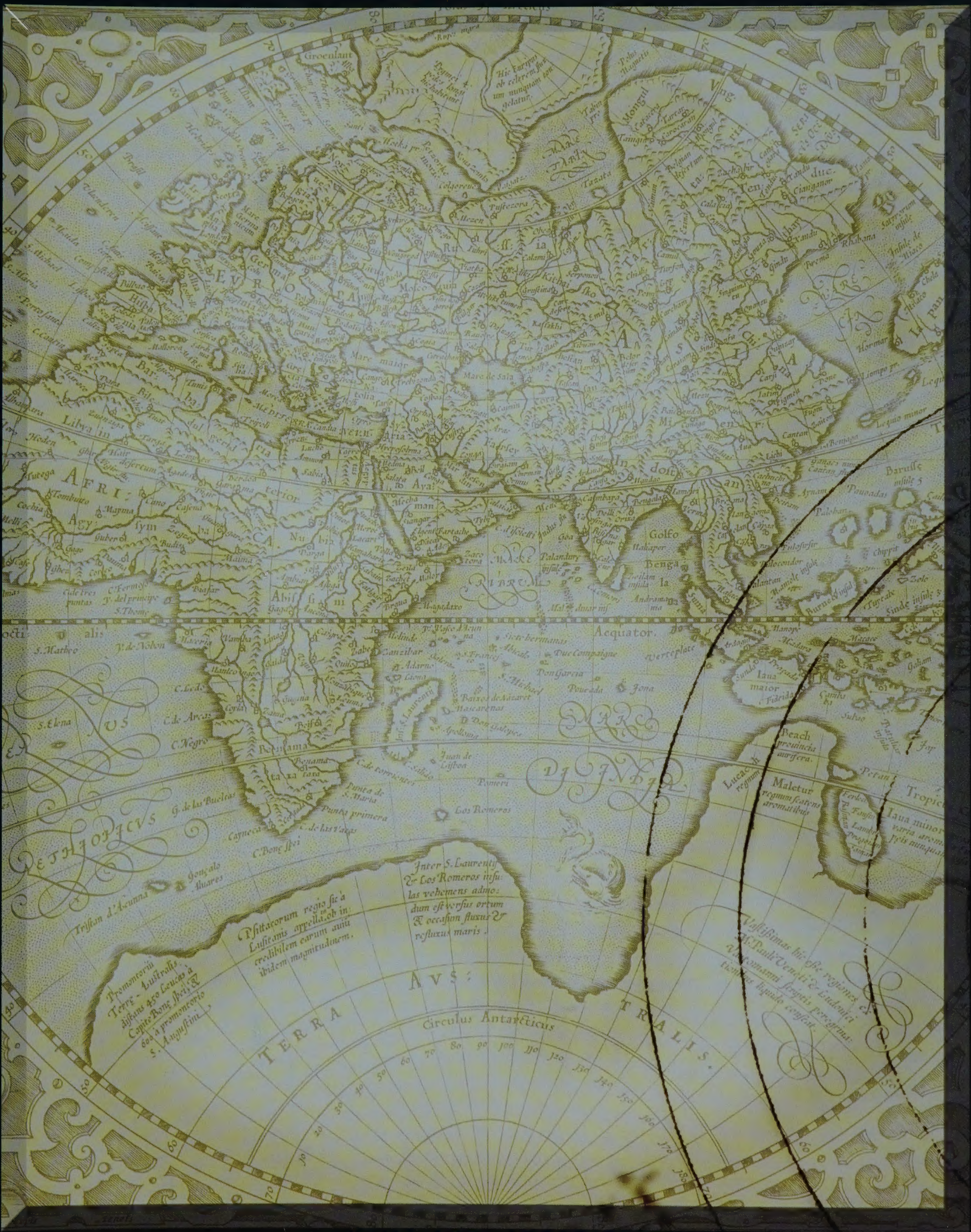

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